

Minutes of the New Jersey Health Care Facilities Financing Authority meeting held on May 25, 2006 on the fourth floor of Building #4, Station Plaza, 22 South Clinton Avenue, Trenton, New Jersey.

The following **Authority Members** were in attendance:

Moshe Cohen, Ph.D., Public Member; Gus Escher, Public Member; Edward Tetelman (Chairman Pro Tem), designee of the Commissioner of Health and Senior Services; Freida Phillips, designee of the Commissioner of Human Services; and, Maryann Kralik, designee of the Commissioner of Banking and Insurance.

The following **Authority staff members** were in attendance:

Mark Hopkins, Dennis Hancock, Steve Fillebrown, Michael Ittleson, Suzanne Walton, Marji McAvoy, Susan Tonry, Lou George, Carole Conover, Bill McLaughlin, and Stephanie Bilovsky.

The following **representatives from State offices and/or the public** were in attendance:

Howard Eichenbaum, Gluck, Walrath; Thomas Papa, Treasurer's Office; Clifford T. Rones, Deputy Attorney General; and, Lisa Thornton, Governor's Authorities Unit.

CALL TO ORDER

Mark Hopkins called the meeting to order at 10:12 a.m. and announced that this was a regular meeting of the Authority, held in accordance with the schedule adopted at the May 26, 2005 Authority meeting. In accordance with the Open Public Meetings Act and the Authority's By-laws, notice of this meeting was delivered to all newspapers with mailboxes at the Statehouse, including *The Star-Ledger* and the *Courier Post*, far enough in advance to permit the publication of an announcement at least 48 hours before the meeting.

In the absence of the Chairman, Mr. Escher nominated Ed Tetelman to serve as Chairman pro tem for the meeting. Ms. Phillips seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-01

NOW, THEREFORE, BE IT RESOLVED, that the Authority appoints Ed Tetelman to serve as Chairman pro tem for the May 25, 2006 Authority meeting, in the absence of the Authority's Chairman.

APPROVAL OF MINUTES

April 27, 2006 Authority Meeting

The minutes for the Authority's April 27, 2006 meeting were distributed for review and approval. Ms. Phillips offered a motion to approve the minutes; Mr. Escher seconded. Mr. Tetelman voted yes, Mr. Escher abstained, Dr. Cohen voted yes, Ms. Phillips voted yes, and Ms. Kralik voted yes. The motion carried and the minutes were approved.

BOND SALE REPORTS

Dennis Hancock reported that it had been a relatively busy month for pricing the issues that were approved at the March and April Authority meetings. Toward the end of April, staff worked with Atlantic Health System representatives, Goldman Sachs and Morgan Stanley to prepare the issue for pricing. Insured by AMBAC, the bonds carry “AAA” ratings and are structured as auction rate securities. On May 2nd, Goldman opened an order period and reported that there was sufficient interest for them to purchase the \$150 million issue at an initial interest rate of 3.65%, which would take effect at the closing on May 10th. Set up in two lots of \$75 million each, Lot A will be auctioned on Tuesdays and Lot B on Wednesdays. The rates after the auctions last week were 3.55% and 3.50%, respectively, and 3.45% and 3.44% this week.

Mr. Hancock stated that the bond issue for Southern Ocean County Hospital (“SOCH”) is structured as variable rate demand notes to be reset initially in the 7-day mode with a letter of credit provided by Wachovia. The bonds were offered for sale on the 17th, just prior to the release of the Bond Market Association index (“BMA”) for the week. The pricing of letter of credit-backed variable rate bonds generally reflects the BMA, therefore, the SOCH pricing was gauged against the senior manager’s expectation for the BMA. After discussions with staff, the borrower and the manager, an order period for the \$18 million issue opened at an interest rate level of 3.4% with the expectation that the BMA would be set at 3.44 to 3.45%. Sufficient orders were received and the underwriter offered to purchase at the 3.4% level. Staff later learned that the BMA was actually set at 3.44%. The bonds will reset Wednesdays; yesterday they were reset at 3.44%.

The \$35 million Virtua private placement closed on Tuesday and the initial weekly rate was set at 3.94%. The rate is established by the term sheet, accepted by the System, and equates to the BMA index plus 50 basis points.

Mr. Hancock added that Holy Name Hospital was approved for a \$60 million fixed rate financing with ratings of “BBB” and “Baa2” based solely on the Hospital’s credit. The bonds are structured as two term bonds with sinking funds so that the debt service on the new bonds wraps the debt service on the outstanding 1997 issue creating a level debt service structure. An investor call with numerous institutional investors started off the pricing. After discussions with the borrower, its financial advisor and the managers, a scale was approved for an order period on Wednesday. Sufficient orders were obtained and the managers offered to purchase the bonds at yields of 4.98% for the 2030 maturity and 5.01% for the final maturity in 2036. The all-in interest cost for the issue is 5.12%.

Mr. Tetelman asked if there is any noted reason for the drop in interest rates during May, to which Mr. Hancock replied that such a drop can sometimes be a result of an increase of cash available for investment by money market funds. Also, with the recent drop in the stock market, monies were likely removed from the stock market and put into the money market fund. Dr. Cohen noted that in one week alone, 10-year treasury bonds dropped from 5.15% to 5.05%, which is significant. Mr. Tetelman then asked why Virtua Health, which is highly rated, received an interest rate that is higher than other issues closing this month. Mr. Hancock reminded the Members that the Virtua transaction was a private placement. While a private placement can benefit from better covenants and easier repayment options, it often does so at a higher cost. It was then noted that Wachovia served as the single investor for the Virtua private placement.

AUTHORITY EXPENSES

Mr. Tetelman referenced a summary of Authority expenses and invoices. Mr. Escher offered a motion to approve the bills and to authorize their payment; Dr. Cohen seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-02

WHEREAS, the Authority has reviewed memoranda dated May 25, 2006, summarizing all expenses incurred by the Authority in connection with FHA Mortgage Servicing, Trustee/Escrow Agent/Paying Agent fees, and general operating expenses in the amounts of \$705,516.94, \$16,123.52 and \$22,414.17 respectively, and has found such expenses to be appropriate;

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby approves all expenses as submitted and authorizes the execution of checks representing the payment thereof.

OLD/NEW BUSINESS

A. Election of Officers

Since the May meeting serves as the Authority's Annual Meeting, Ms. Phillips offered a motion to elect the following slate of Authority officers for the coming year.

Officers of the Authority

Vice Chairman	Gus Escher
Secretary	Moshe Cohen
Assistant Secretaries	Dennis Hancock Carole Conover (one vacancy)
Treasurer	Moshe Cohen
Assistant Treasurer	(vacant)

Cliff Rones reminded the Members that, by statute, Dr. Jacobs continues to serve as Chairman of the Authority throughout his tenure as Commissioner of the Department of Health and Senior Services. Ms. Kralik seconded the nominations. The vote was unanimous and the motion was carried.

AB RESOLUTION NO. GG-03

NOW, THEREFORE, BE IT RESOLVED, that the following individuals are hereby elected to serve in the official positions noted until May 24, 2007, or until the next election of officers:

Vice Chairman - Gus Escher

Secretary - Moshe Cohen

Assistant Secretaries - Dennis Hancock and Carole Conover

Treasurer - Moshe Cohen

BE IT FURTHER RESOLVED, that the one of the three Assistant Secretary roles and the role of Assistant Treasurer will remain vacant, to be filled at a later date with the appointment of new Authority Members.

Mr. Tetelman noted that the term of the Authority's elected officers will begin immediately following the ten-day veto period for the Authority's minutes, barring any veto notification from the Governor's Office.

B. Facsimile Signatures For Authority Checking Accounts

Mr. Tetelman then noted that the Authority needs to update its check signatories according to the new Authority officers. Mr. Escher asked if there were any changes in the Authority's banking structure or depositories, to which Michael Ittleson replied that there were none. Mr. Tetelman asked for a motion to approve new corporate banking resolutions and facsimile signature resolutions. Mr. Escher offered a motion to approve the resolutions; Ms. Phillips seconded. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-04

NOW, THEREFORE, BE IT RESOLVED, that the Authority hereby adopts corporate banking resolutions and facsimile signature resolutions, as a result of the most recent election of officers.

C. Adoption of 2006-2007 Meeting Schedule

Mr. Tetelman referenced a proposed list of dates on which to conduct meetings of the Authority and its Finance Committee for the coming year. It was clarified that, although the Authority is not electing a Finance Committee at this meeting, it will go forward with adopting dates for Finance Committee meetings, since it has the ability to add additional dates or change the dates as needed through proper meeting announcement and notification.

Mr. Escher asked if the Authority would be approving Audit Committee and/or Evaluation Committee meetings today as well, to which Mr. Hopkins replied that the meetings of those two committees are not public and do not require public announcement. As such, they do not require Authority action for their approval and can be chosen at a date closer to their required responsibilities. Mr. Escher offered a motion to adopt the schedule; Ms. Phillips seconded. The vote was unanimous and the motion was carried.

AB RESOLUTION NO. GG-05

NOW THEREFORE, BE IT RESOLVED, that the Authority hereby adopts the following schedule of dates on which to conduct meetings of the Finance Committee and the Authority; and,

BE IT FURTHER RESOLVED, that, as provided by the provisions of the Open Public Meetings Act and the Authority's By-laws, the Assistant Secretary is authorized to provide notice of these meeting dates to the Authority's designated newspapers, to post notice in the Authority offices and on the Authority's website, and provide notice to the Secretary of State:

FINANCE 10:00 a.m.	AUTHORITY* 10:00 a.m.
2006	2006
Tuesday, June 6	Thursday, June 22
Tuesday, July 11	Thursday, July 27
Tuesday, August 8	Thursday, August 24
Tuesday, September 12	Thursday, September 28
Tuesday, October 10	Thursday, October 26
Wednesday, November 8	Tuesday, November 21
Tuesday, December 5	Thursday, December 14
2007	2007
Tuesday, January 9	Thursday, January 25
Tuesday, February 6	Thursday, February 22
Tuesday, March 6	Thursday, March 22
Tuesday, April 10	Thursday, April 26
Tuesday, May 8	Thursday, May 24

*A Finance Committee meeting has also been scheduled immediately following every Authority meeting.

Mr. Tetelman noted for the record that, unless advertised to the contrary, all meetings are open to the public and shall be held in the Authority's office on the fourth floor of Building #4, Station Plaza, South Clinton Avenue, Trenton, New Jersey. Mr. Tetelman added that the Authority's staff will perform the required public announcement and notification of the meeting dates once the Governor's ten-day veto period has passed.

STAFF REPORTS

A. Monthly Updates

Mr. Tetelman referenced staff reports that were distributed for review, including the Project Development Summary, Interest Rate Trends Graph, Cash Flow Statement, Fourth Quarter APOLLO Report, and a Legislative Advisory. Mr. Escher noted that he always appreciates the Legislative Advisory Report and asked if there were any hot-button items in the report worth special note. Steve Fillebrown replied that most of the State's focus at the moment is on the State budget, which includes some items of interest such as the proposed hospital bed tax and charity care funding. Mr. Tetelman added that the Legislative Report reflects the interests of the individual legislators rather than the Administration, therefore, most of the proposed bills in the report do not move beyond merely being introduced by a legislator. Few are actually voted upon by the State legislating body.

Mr. Fillebrown noted that half of the \$430 million expected to be generated by the proposed hospital bed tax would fund the general State budget. The remaining \$215 million would go towards charity care reimbursement for those hospitals that treat the largest number of uninsured patients. According to the current formula, however, it is predicted that there would be approximately 25 hospitals that are helped by the tax and 45 to 50 that are hurt by it. Upon receipt of this news, the Governor had ordered a restructuring of the tax to better help the State's healthcare providers. Generally, the hospitals hurt by the tax are those institutions that receive minimal Medicaid reimbursement.

Mr. Fillebrown also noted that the State has become interested in tallying New Jersey's total number of hospital beds, versus the need for beds in the various region. Senator Adler and the Governor have both expressed interest in a study to evaluate the optimal number of hospital beds for the State of New Jersey. Mr. Tetelman added that the study may also analyze the State's number of beds maintained versus licensed beds, also reviewing whether or not the licensed beds are being used according to their Certificate of Need. He complimented the Governor for going beyond just expressing concern to actively seeking solutions to the State's health care problems, adding that he and the Authority are pleased to offer assistance in finding these solutions.

Ms. Phillips also noted that there is currently a proposal of interest from Senators Leonard Lance and Wayne Bryant to create an individual Medicaid Inspector General.

B. Fourth Quarter APOLLO Report

Mr. Fillebrown began his presentation on the Authority's Fourth Quarter APOLLO Report by noting that the findings are based on unaudited financial information and could change when the audited statements are received. Based on these unaudited statements, Mr. Fillebrown reported that the median operating margin dropped for the fourth straight quarter, falling to .14%. The median profit margin is essentially the same as last year at 1.55%. Thus, it appears that as an industry, hospitals did worse from operations in 2005 but were able to make it up with improved investment income.

Mr. Fillebrown noted that liquidity measures were mixed. Median days cash dropped two days to 73 days and median payables rose three days to 65. On the other hand, median accounts receivable improved by two days down to 50. Similarly, leverage ratios showed mixed results compared to 2004. Debt to capitalization (46.4%) and long-term debt to net fixed assets (77%) improved slightly but cash to debt (69%) was down compared to year-end 2004.

Thirty hospitals (45%) lost money from operations in 2005, compared to 28 in 2004. Of these 30 hospitals, 20 incurred bottom line losses; that is, even after adding in investment income and other non-operating items, revenues did not cover expenses. Volume declines appear to be an important factor in the financial distress of many of the hospitals, however, wage pressures and medical denials also continue to concern hospitals. In addition, hospitals may have difficulty adjusting expenses quickly enough to match volume declines.

Mr. Fillebrown stated that, in terms of the differences seen in performance across New Jersey hospitals, the pronounced differences between peer groups that staff noted in the second quarter of 2005 have continued for the third straight quarter. Financial performance seems closely correlated with factors such as location (hospitals in the southern half of the state do better), bed size (the more beds, the better the financial performance) and income status (the higher the per capita income of the patient base, the better the financial results).

Volume declines appear to be an important factor in the differences by location. In general, volume trends are more positive (either in terms of larger gains or smaller losses) for hospitals in the southern half of the state. Mr. Tetelman asked if the 400-bed threshold difference relates to the idea that these larger hospitals are typically located in inner cities. In response to the question, Mr. Fillebrown introduced a hypothesis, though it is difficult to test. The theory suggests that larger hospitals, hospitals in south, and those treating a higher income population may have more leverage with third party payers and, therefore, obtain more favorable reimbursement. Those peer groups performing poorly may be burdened with higher levels of unreimbursed charity care. This theory is supported by the fact that variations in bad debt expense, cost per admission or staffing levels do not appear to be driving the differences. While leverage differences (measured by debt to capitalization, capital expense as a percent of total expenses and debt to net fixed asset) may also explain some of the variation, the trends are not consistent across all the peer groups. It was noted that the boundary by which hospitals are determined northern versus southern is approximately Route 195.

Mr. Tetelman suggested that the Authority look into whether or not there is a trend between those hospitals that have lost physicians to ambulatory centers versus those who have not. Dr. Cohen suggested the Authority also analyze trends seen based on hospital systems. Mr. Fillebrown acknowledged value in the recommended analyses and noted the requests.

Mr. Tetelman asked if there are any hospitals doing very well, to which Mr. Fillebrown said that, just as there are a number of hospitals doing very poorly, there are also a number of hospitals doing very well. He noted that the predictions made in the 1990's regarding the deregulation of hospital reimbursement rates are turning out to be accurate, reflecting a bifurcation of the hospitals by their finances.

C. Executive Director's Report

Mr. Hopkins announced the following items:

1. Stephanie Bilovsky and senior staff updated and improved the Authority's map of hospitals in the state. The new map has numbered symbols with a key identifying each hospital and hospital system.

2. At the April meeting, the Authority approved a negotiated sale of approximately \$90,000,000 of Authority bonds to be issued on behalf of the Bayonne Medical Center. Through a competitive process, Bayonne Medical Center selected Raymond James as their Senior Managing Underwriter for the proposed financing.

3. A recent article appeared in the Asbury Park Press regarding Recovery Management Systems ("Recovery"), on behalf of whom the Authority issued \$13.8 million in bonds in March of 2005 to construct a facility for addiction treatment. The project is being constructed on a portion of the property formerly occupied by the Marlboro Psychiatric Hospital.

Upon Recovery's prior purchase of the site, the State agreed to provide water and sewer from the system that served the old psychiatric hospital until another suitable source was available. The State assumed Recovery would immediately pursue other sources. Recovery assumed that the existing water and sewer system would be sold to the municipality of Marlboro or the Western Monmouth Utilities Authority, at which time Recovery would contract with the purchasing utility entity.

However, the Department of Environmental Protection ("DEP") has since reclassified the area to prohibit operations of a water and sewer system at the site, halting any plans to sell the existing system to either assumed buyer. The State has assured Recovery and the Authority that

it intends to continue to supply water and sewer but expects Recovery to have a plan for another source for water and sewer by January of 2007, understanding that Recovery will need additional time to accomplish the actual connections. Therefore, Recovery is in the process of identifying other sources of water and sewer. It expects to be able to tie into the existing municipal water and sewer system but at an additional expense, which may be considerable.

Mr. Tetelman asked if there had been a commitment by the State to provide water and sewer to the facility. Mr. Hopkins noted that there was such a commitment, and, though it appears the State did believe that Recovery would be pursuing other water and sewer options aside from this one provider, the commitment did not appear to include a time limit for doing so. The nearest existing source of water and sewer is approximately one mile from the facility and could incur high costs for connection, if it is even deemed acceptable to provide the additional capacity required by the facility. Further, some land easements would be needed to make the connection.

Mr. Escher noted that Recovery seems to be the only party to suffer with this reclassification; he asked if the DEP evaluates the possible consequences of such actions. No one present had any knowledge of the DEP's classification process or criteria. Staff will keep the Members updated on the progress of this issue.

EXECUTIVE SESSION

As permitted by the Open Public Meetings Act and the Authority's By-Laws, the Members voted to meet in Executive Session to discuss personnel and contractual matters, and to receive advice from the Office of the Attorney General. Mr. Tetelman stated that the results of the discussion would be made known at such time as the need for confidentiality no longer existed. Mr. Escher offered a motion to enter the session; Ms. Phillips seconded it. The vote was unanimous and the motion carried.

AB RESOLUTION NO. GG-06

NOW, THEREFORE, BE IT RESOLVED, that, as permitted by the Open Public Meetings Act and the Authority's By-Laws, the Authority meet in Executive Session to discuss personnel and contractual matters, and to receive advice from the Office of the Attorney General.

BE IT FURTHER RESOLVED, that the results of discussions may be made known at such time as the need for confidentiality no longer exists.

Public session reconvened. As there was no further business to be addressed, Mr. Escher moved to adjourn the meeting, Ms. Phillips seconded. The vote was unanimous and the motion was carried at 11:44 a.m.

I HEREBY CERTIFY THAT THE
FOREGOING IS A TRUE COPY
OF MINUTES OF THE NEW
JERSEY HEALTH CARE
FACILITIES FINANCING
AUTHORITY MEETING HELD
ON MAY 25, 2006.

Dennis Hancock
Assistant Secretary